

Message Text

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PAGE 01 SOFIA 00209 020915Z

ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 AID-05 IGA-02 COME-00 H-01

CIAE-00 /029 W

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FM AMEMBASSY SOFIA

TO SECSTATE WASHDC 2322

LIMITED OFFICIAL USE SOFIA 0209

FOR EB/IFD/ODF: JOHN BLANEY

E.O. 11652: NA

TAGS: EFIN EAID OREP

SUBJECT: SENATOR GRAVEL'S PAPER ON TAXATION FOR DEVELOPMENT
ASSISTANCE--POST COMMENTS

REF: STATE 009837

1. FOLLOWING COMMENTS MADE BY OUR ECONOMIC/COMMERCIAL
OFFICER.

2. PAPER EXPRESSES A NOVEL AND INTERESTING APPROACH FOR
GENERATING REVENUE TO MEET US GOALS FOR AID TO LDCS. HOWEVER,
CERTAIN PROBLEMS ARE SUGGESTED BUT NOT CLARIFIED BY DRAFT.

3. UNDER THIS PROPOSAL, TOTAL TAX ON FOREIGN INCOME COULD
BECOME GREATER THAN FOREIGN INCOME AFTER LOCAL FOREIGN TAXES.
SUGGESTED TAX BASE IS FOREIGN TAXABLE INCOME BEFORE FOREIGN
TAXES. ACCORDING TO QUOTED STATISTICS, AFTER TAX FOREIGN
PROFITS WERE ONLY ABOUT 40 PERCENT OF FOREIGN TAXABLE INCOME IN
1975, HENCE AN ADDITIONAL DEVELOPMENT TAX RATE OF MORE THAN 40
PERCENT WOULD LEAVE A NET LOSS FOR FOREIGN ACTIVITIES. IN SUCH
CASES DOMESTIC TAX REFUND PROPOSED WOULD MEAN THAT US GENERAL
REVENUES WOULD BE USED TO MAKE AID PAYMENTS.

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4. BECAUSE OF THE REFUND PROVISIONS, TAX IS ECONOMICALLY
EQUIVALENT TO INCREASED OFFICIAL AID FROM GENERAL REVENUES.
HENCE "PERCEPTION" THAT MNCS AREN'MAYING COST OF DEVELOPMENT
MAY EASILY BE SHATTERED. ALTERNATIVELY, LDCS MAY FEEL THAT
IF US ACCEPTS IDEA OF TAX ON MNC ACTIVITIES FOR DEVELOPMENT,
THEY TOO ARE JUSTIFIED IN IMPOSING THEIR OWN "DEVELOPMENT TAX

SYSTEM". THIS PROBLEM COULD BE IMPORTANT PARTICULARLY IN CASES OF "RICH" LDCS WITH LOW AID WEIGHTS AND LARGE AMOUNTS OF MNC ACTIVITIES.

5. IT SEEMS THAT MOST OF MNC FOREIGN PROFITS COME FROM ACTIVITIES IN DEVELOPED NATIONS RATHER THAN LDCS. THIS FACT WILL REDUCE STRENGTH OF ARGUMENT THAT PROFITS TAKEN FROM LDC ECONOMIES ARE BEING RETURNED TO THEM FOR DEVELOPMENT PURPOSES.

6. DECLASSIFY UPON RECEIPT.
HERZ

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NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REPORTS, TAX LAW, LESS DEVELOPED COUNTRIES, MULTINATIONAL CORPORATIONS, INCOME TAXES, DEVELOPMENT PROGRAMS
Control Number: n/a
Copy: SINGLE
Sent Date: 02-Feb-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
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ISecure: 1
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Line Count: 73
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Litigation Codes:
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Original Classification: LIMITED OFFICIAL USE
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Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
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Previous Handling Restrictions: n/a
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Retention: 0
Review Action: RELEASED, APPROVED
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Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
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SAS ID: 3429162
Secure: OPEN
Status: NATIVE
Subject: SENATOR GRAVEL'S PAPER ON TAXATION FOR DEVELOPMENT ASSISTANCE--POST COMMENTS
TAGS: EFIN, EAID, OREP, US, (GRAVEL, MIKE)
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